

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7070
BILL NUMBER: SB 463

NOTE PREPARED: Jan 10, 2004
BILL AMENDED:

SUBJECT: Property Taxes.

FIRST AUTHOR: Sen. Simpson
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Certified Assessed Value:* This bill provides that a county auditor may reduce a taxing unit's assessed valuation (AV) to enable the taxing unit to absorb the effects of reduced property tax collections resulting from successful assessed valuation appeals. It requires the county auditor to keep separately on the tax duplicate the amount of any reductions. The bill provides that the maximum amount of the reduction is 2% of the taxing unit's assessed valuation. It also allows the county auditor to appeal to the Department of Local Government Finance (DLGF) to reduce a taxing unit's assessed valuation by more than 2%.

Maximum Levies: This bill also allows taxing units to use "banked" property tax levies in the calculation of maximum levies. The bill excludes the part of a taxing unit's levy that is attributable to banking of unused maximum levies from the computation of Property Tax Replacement Credits (PTRC) and Homestead Credits.

Effective Date: July 1, 2004.

Explanation of State Expenditures: *Certified Assessed Value:* If the amount billed for property taxes is temporarily increased for any taxing units in CY 2005 by allowing a reduction in the certified AV used to calculate tax rates (see *Explanation of Local Revenues*), then the state could experience an increased cost for PTRC and Homestead Credits in CY 2005 only. The amount of PTRC and Homestead Credit increase under this provision is difficult to estimate. This proposal would first be effective for taxes paid in 2005. When final values are certified for 2005 tax rate calculations, many appeal issues from 2003 and 2004 will probably have been dealt with and would no longer be an issue. Still, there will be appeals that have not been settled and even new appeals that were filed after the deadline for 2004 taxes. The additional cost would most likely equal between 0 and 2% of the current cost for these credits in CY 2005. This could amount to

anywhere between \$0 and \$43.7 M in CY 2005 or \$0 - \$14.6 M in FY 2005 and \$0 - \$29.1 M in FY 2006. The high estimates assume that the certified assessed value for all taxing units would be reduced by 2%.

PTRC and homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund.

Each year, the auditor of state and the county auditors reconcile homestead credit and PTRC payments. When a taxpayer's appeal is finally adjudicated, even if this happens several years after the original tax billing, the state's liability for these credits is adjusted accordingly and reconciling payments (in either direction) are made. So, over time, the total state payment for PTRC and homestead credits really doesn't change under this provision.

Maximum Levies: This provision would have no effect on the amounts paid for PTRC or Homestead Credits. Any additional amounts levied under this provision would be excluded from the calculations used to compute these credits.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Certified Assessed Value:* Under current law, as amended by SEA 1 (2004), the total of all assessed valuation (with the exception of very large bankruptcies) must be included in the assessed valuation that the county auditor certifies for use in calculating property tax rates. This includes AV that is subject to appeal. If successful appeals cause a tax shortfall, a taxing unit may seek an excessive levy in the following year to compensate for the shortfall.

Beginning with taxes paid in 2005, this provision would permit the county auditor to reduce the certified AV of a taxing unit by up to 2% to reflect reduced property tax collections due to successful appeals. (The county auditor would be able to appeal to the DLGF for permission to reduce a unit's certified AV by more than 2%.)

When assessed value is removed from the AV certification, the tax rate is increased in order to generate the desired certified levy. When tax bills are calculated, the tax rate would be applied to all AV, including the amount removed from certification under this provision. This would generally result in a larger charged levy (or abstract levy). Some of this abstract levy may not be collected due to successful appeals. If the amount of AV removed from certification is too low, then the tax rate would be set too low and the unit would suffer a revenue shortfall. However, if too much AV is removed, then the tax rate would be set too high, generating too much property tax revenue.

Currently, taxing units may not spend any more than 100% of their certified levies. Collections over 100% of certified levy must be deposited into the Levy Excess Fund and are used to pay tax refunds and to reduce future tax levies.

Under this provision, in CY 2005 only, there could be as much as a 2% increase in a unit's tax rate and property tax billings. This is because a unit may have both a shortfall levy in 2005 to cover 2004 shortages and it could cover any anticipated 2005 shortages by reducing the certified AV and increasing the tax rate in 2005, as well. However, after 2005 there should not be any real change in levies and rates under the proposal.

The real impact of the bill would be that fewer taxing units would suffer shortfalls due to successful appeals in a year only to be recaptured by an increased levy in the next year. Of course, it is possible that some taxing units that will suffer shortfalls under current law may not appeal for an increased levy in the next year. For these units, the bill could make up losses not otherwise recaptured.

Maximum Levies: Under current law, as amended by SEA 1 (2004), maximum levies of civil taxing units, the county Family and Children Fund, and the county Children's Psychiatric Services Fund are equal to the previous year's actual levy (of funds subject to the maximum levy) multiplied by the annual growth factor. The current law removed the previously unused portion of maximum levies and eliminates any "banking" of unused levy authority in the future.

Beginning with taxes payable in 2005, this provision would return the maximum levy computation for civil taxing units, the county Family and Children Fund, and the county Children's Psychiatric Services Fund to a formula similar to the one in force before SEA 1-2004 was enacted. Specifically, the maximum levy for a year would be equal to the growth factor multiplied by the greater of (1) the previous year's maximum levy or (2) the previous year's actual levy.

The new formula would use CY 2004 levies and maximum levies as its base. Therefore, the "banked" or unused maximum levies that were eliminated in 2004 would not be restored by this bill. The bill would, however, keep any future unused maximum levy authority from being eliminated and allow a taxing unit to impose a levy in a later year that uses any or all of the authority banked after 2004.

The fiscal impact in each taxing unit would depend on (1) the amount of maximum levy limit that goes unused each year and (2) the future tax levy needs of that unit. It is assumed that this provision would have little impact initially.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All local civil taxing units and school corporations.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.